

This record is a partial extract of the original cable. The full text of the original cable is not available.

261730Z Oct 05

UNCLAS SECTION 01 OF 02 PARIS 007334

SIPDIS

PASS FEDERAL RESERVE
PASS CEA
STATE FOR EB and EUR/WE
TREASURY FOR DO/IM
TREASURY ALSO FOR DO/IMB AND DO/E WDINKELACKER
USDOC FOR 4212/MAC/EUR/OEURA

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [ENRG](#) [FR](#)

SUBJECT: DETAILS OF EDF'S PARTIAL PRIVATIZATION

11. SUMMARY. The partial privatization of Electricite de France (EDF) will be done through an increase in EDF's capital and a sale of government shares to EDF's employees. The government will keep a substantial 85% stake in the company. The initial public offering of EDF's shares will start on October 28. The company should be listed by November 21. Increasing the capital rather than selling existing shares allows the government, which has been facing union anger (septel), to placate the unions by keeping a substantial stake in the company and to access more capital to finance an ambitious investment strategy. END SUMMARY.

12. On October 24, Prime Minister Dominique de Villepin announced the partial privatization of EDF. The government gave the go-ahead after receiving investment and public service guarantees from EDF (septel).

EDF will Increase its Capital and...

13. On October 25, Finance Minister Thierry Breton and Industry Minister Francois Loos presented the main technical modalities of the increase in EDF's capital, France's largest to date. Breton said that EDF would raise a maximum seven billion euros by selling up to 287 million shares. He stressed that, apart from shares reserved for EDF's employees, the sale will benefit the company only. The Government will raise no funds for itself, directly or indirectly, from new share sales to the public under this "capital opening."

... the Government will Sell Shares to EDF Employees

14. The August 11, 2004 law that paved the way for EDF's partial privatization, made an exception to the August 6, 1986 law on technical modalities of privatizations, raising from 10% to 15% the number of shares reserved for EDF's current employees, former employees and others such as those who have worked at least five years for EDF, or those who have worked in one of EDF's subsidiaries in which the company holds more than 50% of capital, and employees working in EDF-GDF mixed units. The sale of Government shares in EDF to employees is expected to result in one billion euro in proceeds for the government.

The Government will Keep a 85% Stake

15. The government will keep a minimum 85% stake in EDF, much more than required by the August 2004 law that stipulates that the government maintains at least a 70% stake in the company. The government has gone much further than 70% to calm union anger, and pledged to maintain long-term control of EDF (septel).

Employees, Individuals and Institutional Investors

16. Based on EDF internal information, as a clear inducement, EDF employees will benefit from a 20% discount on share price proposed to individuals. Thirty five percent of shares will be offered to other individual investors. Individuals will get a discount on the introductory price of the share, and will not pay banking fees ("frais de garde") in the first 18 months following the purchase. The government objective is to have EDF's employees and individual investors accounting for more than 50% of new shareholders.

17. Around half the shares will be opened to institutional investors. Breton invited foreign investors to participate in the sale, saying he supported a vision of French economic policy he termed as "patriotism is not protectionism."

EDF will be Listed by November 21 at the Latest

18. The initial public offering of EDF's shares will start on October 28 subject to the setting of legal details, which are not expected to cause a delay. Breton plans for EDF to

be listed by November 21 at the latest. The sale would price shares at about 24 euros, valuing EDF at about 47 billion euros. Breton indicated that EDF was expected to have debts of 20 billion euros, and the capital opening will allow the company to pursue its "ambitious investment plan" of 40 billion euros over 2006-2010 years (septel).

Comment

19. Under pressure from unions, the government had to keep a higher-than-70% stake in EDF. Increasing the company's capital rather than opening the capital by selling existing shares was the only way to allow the government to keep a substantial stake in EDF, calm the unions and get fresh capital to fund ambitious investment plans. End comment.
Stapleton